



CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

55 TRINITY AVE, S.W
ATLANTA, GEORGIA 30335-0300

TEL (404) 330-6100

March 24, 2008

The Honorable Lisa Borders
Members, Atlanta City Council
55 Trinity Avenue, S.W.
Second Floor East
Atlanta, Georgia 30335

Dear President Borders and City Councilmembers:

I want to take this opportunity to summarize the City's current financial status and to make clear my commitment to resolving any concerns about our financial systems, practices and policies. Just as this administration has addressed and resolved the issues related to our water and sewer system, the completion of Hartsfield-Jackson Atlanta International Airport's fifth runway, and the historical problems with our court system, I am confident we will manage this as well.

There is good news and bad news. The bad news is that we do, indeed, have a projected 2008 budget shortfall of about \$65 million, and we will have to make significant cuts to attain a balanced 2009 budget. But the good news is:

- ❖ the City's Aviation and Watershed Funds – representing more than 50% of our operations and revenues – are in excellent financial condition;
- ❖ the shortfall in our General Fund is small compared to the deficits being reported by many state and local governments across the country;
- ❖ we now have in place a financial reporting system (ERP) that provides us with the tool to fix poor, decades-old practices and policies;
- ❖ we have a performance measurement system (ATLStat) that makes it possible to measure and improve our core service delivery; and
- ❖ we have a strong track record of addressing and solving tough problems in the City.

It is one thing to project a budget shortfall for the current year. It is an entirely different exercise to understand the underlying causes of that shortfall. We have conducted an in-depth review of the City's finances since 2002 and it is clear that several simple but significant factors have contributed to the current shortfall. I have attached a comprehensive financial analysis to this letter that highlights these factors. This is the same material that the Chief Operating Officer, Greg Giornelli, presented to you earlier last week.

The analysis illustrates that the City has experienced a shortfall between recurring revenues and expenses for the past three fiscal years. There are two primary reasons for that. First, our underlying personnel cost structure has fundamentally changed due to large pension cost increases (driven by new

GASB funding requirements and making up for decades of underfunding pension benefits) as well as a national rise in health care costs. Secondly, in response to a growing population and to independent studies showing a need for higher levels of service delivery (especially in public safety), since 2003 we have added 843 General Fund positions. All of this took place at a time when the real growth in revenues (adjusted for inflation) was less than 1% per year. Our flat revenues reflect the City's practice of rolling back the millage rate to reduce property taxes. And finally, the current economic downturn brought all these factors to a head as projected revenues are well below what historical experience would suggest.

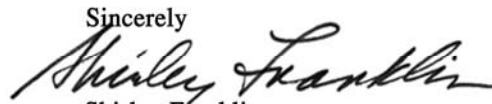
While these changes in our revenues and expenses occurred over several years, out-of-date financial systems and tracking processes (now fixed) failed to highlight these changes. Also, our long-standing practice of budgeting a cash carryforward every year (a non-recurring source of revenue) masked the gap between ongoing revenues and expenses.

From an operational standpoint, the fundamental change in our personnel cost structure (pension and health costs have increased \$102 million in six years and now represent 26% of our General Fund budget) means that going forward we will have to focus on core services and become more efficient in delivering those services.

I take full responsibility for the financial and operational decisions that have been made since 2002, including those made over my objection. And I also accept full responsibility for solving these issues. When I leave office at the end of 2009, the City will be financially sound; we will have tight control on expenses; we will have a transparent financial reporting system; and we will leave a cash reserve for the next Administration.

Together, this administration and the Council have tackled many difficult issues over the past six years. I have no doubt that we can solve the financial challenge before us in the same manner. We have a professional team in place to implement the changes, and we have the resolve necessary to continue the reforms we started six years ago. I remain committed to transparency in all aspects of City government, and we will be open and honest about our finances, too.

I look forward to working with you over the next 22 months to achieve all these goals and to restore the City's financial stability.

Sincerely

Shirley Franklin